

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 DODE-00 PA-02 PRS-01 L-03 H-02

IO-14 AGRE-00 /126 W

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R 181452Z AUG 77

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 1377

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BELGRADE

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LISBON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: EFIN, SW

SUBJECT: SWEDISH GOVERNMENT PREPARING MEASURES TO RESPOND TO
ECONOMIC DIFFICULTIES

REFS: (A) GOTEORG 199 (NOTAL), (B) STOCKHOLM 3332

1. DURING THE WEEK OF AUGUST 15, PRIME MINISTER FALLDIN HAS BEGUN IN MORE INTENSIVE CONSULTATIONS WITHIN THE GOVERNMENT TO PREPARE A SERIES OF MEASURES (A "CRISIS PACKAGE" SAYS THE PRESS) DESIGNED TO ASSIST SWEDEN TO OVERCOME SEVERAL CURRENT ECONOMIC DIFFICULTIES, PARTICULARLY ITS EXPORT COMPETITIVE POSITION. THE PRIME MINISTER WILL EXTEND HIS CONSULTATIONS TO EMPLOYERS AND THE LABOR UNIONS IN THE COMING WEEKS. THE GOS WILL PRESENT ITS PROPOSALS TO THE RIKSDAG WHEN IT RECONVENES IN EARLY OCTOBER.

2. LABOR COSTS. SWEDEN'S ECONOMIC DIFFICULTIES FALL IN SEVERAL CATEGORIES. THE FIRST IS THE CONTINUING SURGE IN LABOR COSTS. WAGE SETTLEMENTS FROM 1973 TO 1977 AND THE RELATED INCREASES IN INDIRECT PAYROLL COSTS HAVE RESULTED IN THE HIGHEST PER UNIT LABOR COST IN THE INDUSTRIAL WORLD. IN MANY OF THEIR MARKETS, SWEDISH EXPORTERS HAVE SEEN THEIR COMPETITIVE SITUATION ERODE. MARKET SHARES HAVE BEEN LOST TO THE JAPANESE, WEST GERMAN AND US PRODUCERS, AND OTHERS. 1977 WAGE SETTLEMENT, BOTH IN THE PRIVATE SECTOR AND PUBLIC SECTOR, WILL PUSH LABOR COSTS UP ANOTHER 10-12 PERCENT. THE GENERAL INFLATION RATE IS NEARLY TEN PERCENT, HIGHER THAN THAT IN MAJOR COMPETING COUNTRIES. ANOTHER WAGE ROUND NEGOTIATION IS DUE THIS FALL: IT IS DOUBTFUL THAT ITS RESULTS WILL PROVIDE A UNCLASSIFIED

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CORRECTIVE EFFECT--I.E., BY LOWERING THE TREND OF SWEDISH LABOR COSTS VIS-A-VIS ITS MAJOR COMPETITORS.

3. INVENTORY ACCUMULATION. ANOTHER ASPECT OF THE SITUATION FACING MANY SWEDISH BUSINESSMEN IS THE ACCUMULATION OF INVENTORIES BEYOND NORMAL LEVELS. THE ACCUMULATION IS DUE IN PART TO DELIBERATE GOS POLICIES SINCE 1975 TO SUBSIDIZE PRODUCTION FOR INVENTORY AS A MEANS OF MAINTAINING EMPLOYMENT. THE SOCIAL DEMOCRATS AND THE PRESENT GOVERNMENT GAMBLED THAT THE INTERNATIONAL RECOVERY FROM THE 1974-75 RECESSION WOULD PERMIT EXCESSIVE INVENTORIES TO BE WORKED OFF SATISFACTORILY. THEIR EXPECTATIONS HAVE NOT BEEN REALIZED. TO A DEGREE, ALSO, THE INVENTORY PROBLEM FACING SWEDEN'S ENGINEERING INDUSTRY IS THE RESULT OF A SLOWER INTERNATIONAL RECOVERY IN THE CAPITAL GOODS MARKETS.

4. THE SNAKE. UNDER THE CONDITIONS MENTIONED ABOVE, SWEDEN'S EXPORT POSITION HAS SUFFERED DISADVANTAGES THROUGH ITS MEMBERSHIP IN THE MONETARY ARRANGEMENTS OF THE "SNAKE," WHEREIN THE KRONA IS TIED CLOSELY TO THE

WEST GERMAN DEUTSCHE MARK, ONE OF THE STRONGEST OF CURRENCIES. MODEST DEVALUATIONS WITHIN THE SNAKE OF THE KRONA WHICH TOOK PLACE IN OCTOBER, 1976 AND APRIL OF THE YEAR HAVE NOT PROVIDED ANY MEASURABLE AID TO SWEDISH EXPORTS.

5. 5. "IMMORALITY" OF UNEMPLOYMENT. SWEDEN'S ECONOMIC PROBLEMS ARE MADE MORE ACUTE, PSYCHOLOGICALLY SPEAKING, BECAUSE SWEDISH LEADERSHIP FOR A GENERATION OR MORE HAS REGARDED THE ACCEPTANCE OF UNEMPLOYMENT AS "IMMORAL," AND HAS BEEN COMMITTED TO MAINTAINING THE LOWEST POSSIBLE LEVEL OF UNEMPLOYMENT--CURRENTLY AT 1.6 PERCENT. REDUCTION OF BUSINESS COSTS THROUGH LAY-OFFS, ACCEPTED AS NECESSARY IN SO MANY COUNTRIES, IS UNCLASSIFIED

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SOMETIMES DESCRIBED BY SWEDISH LEADERSHIP AS THE "BRUTAL" SOLUTION OF THE US OR WEST GERMANY.

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6. THE DEBATE OVER SOLUTIONS TO GROWING INDICATIONS OF ECONOMIC DIFFICULTIES HAS BEEN PROCEEDING SINCE THE FALL OF 1976. SWEDEN'S LITERATE, MEDIA-ORIENTED POPULATION, ITS LEADERSHIP, ITS ACADEMICS, ITS LABOR AND BUSINESS SPOKESMEN, HAVE ACTIVELY DISCUSSED A VARIETY OF SOLUTIONS. SEVERAL KINDS OF PROPOSALS HAVE EMERGED.

7. DEVALUATION. THE OFFICIAL GOVERNMENT LINE IS THAT ANOTHER DEVALUATION IS NOT THE RIGHT ANSWER. MANY ECONOMISTS AND BUSINESS LEADERS, HOWEVER, BELIEVE THAT THE KRONA MUST BE DEVALUED AGAIN. SUGGESTIONS RANGE FROM SIX TO 50 PERCENT. SOME ARGUE THAT A NEW DEVALUATION OF AROUND SIX PERCENT--A DEGREE SIMILAR TO THE TWO DEVALUATIONS MENTIONED ABOVE--WOULD PERMIT SWEDEN TO REMAIN WITHIN THE SNAKE AS WELL AS BENEFIT SWEDEN'S EXPORT INDUSTRIES. OTHER PROPOSE DEPARTURE FROM THE SNAKE AND A MORE DRASTIC DEVALUATION FOLLOWED BY A KRONA FLOAT.

8. TAX STRUCTURE. MANY BELIEVE THAT SWEDEN'S TAX STRUCTURE NEEDS REVISION TO EASE BURDENS ON BUSINESSMEN, PARTICULARLY A SIGNIFICANT REDUCTION OF THE PAYROLL TAX WHICH IS CURRENTLY FOUR PERCENT OF WAGE COSTS. LIGHTENING THE BURDEN OF INHERITANCE TAXES SO AS TO PERMIT SMALL AND MEDIUM BUSINESSES TO CONTINUE "WITHIN THE FAMILY" IS ANOTHER PROPOSAL. OTHER PROPOSALS WOULD HAVE AN INDIRECT EFFECT ON EMPLOYER COSTS. FOR EXAMPLE, MANY EMPLOYEES HAVE DIS-

COVERED THAT WITH THE FISING LEVEL OF THEIR WAGES THEY
MOVE INTO TAX BRACKETS WITH HIGHER MARGINAL RATES, SO
THAT THEIR DISPOSABLE INCOME IS LITTLE, IF ANY, IN-
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CREASED. CONSIDERATION IS BEING GIVEN TO CHANGING IN-
COME TAX RATES SO AS TO RAISE DISPOSABLE INCOME UNDER
THESE CIRCUMSTANCES. SOME ARGUE THAT THIS CHANGE
MIGHT INDUCE THE LABOR UNIONS TO ACCEPT SMALLER WAGE
INCREASES THAN WOULD OTHERWISE BE THE CASE IN THE NEXT
WAGE NEGOTIATIONS.

9. RESTRUCTURING. THE GOS HAS ALREADY ATTEMPTED TO
COPE WITH THE PROBLEMS OF THE SHIPBUILDING INDUSTRY BY
COMBINING SMALLER YARDS INTO A STATE-CONTROLLED
COMPANY, AND HAS UNDER ACTIVE CONSIDERATION THE RE-
STRUCTURING OF OTHER INDUSTRIES SUCH AS COMMERCIAL
STEEL, SPECIALTY STEEL, AND TEXTILES. PROPOSED SOLU-
TIONS INVOLVE COMBINING PRODUCTION FACILITIES, SUB-
SIDIES, PHASED REDUCTION IN LABOR FORCE, AND OTHER
FORMS OF ASSISTANCE.

10. EXPORT PROMOTION. ANOTHER AREA UNDER ACTIVE CON-
SIDERATION IS EXPORT PROMOTION. PARTICULAR EMPHASIS
WILL BE PLACED, IN ALL LIKELIHOOD, ON WAYS TO HELP
SMALL AND MEDIUM SWEDISH BUSINESSES IMPROVE THEIR EX-
PORT SITUATION.

1. SOLUTIONS PUT FORTH BY OTHER GOVERNMENTS
UNDER SIMILAR CIRCUMSTANCES WHICH ARE NOT BEING ACTIVELY
PROPOSED ARE EXTENSIVE IMPORT CONTROLS AND NATIONALI-
ZATION. SWEDISH AUTHORITIES ARE ATTEMPTING TO HOLD TO
THEIR FREE TRADE POLICIES. NOR ARE THEY APPARENTLY
TEMPTED TO CHANGE THE ESSENTIALLY CAPITALISTIC
CHARACTER OF THE PRODUCTION OF GOODS IN SWEDEN.

12. THUS, PROPOSALS WHICH ARE TO BE SUBMITTED TO THE
RIKSDAG IN OCTOBER WILL VERY LIKELY CONTAIN ELEMENTS
RELATING TO EXPORT PROMOTION, TAX READJUSTMENTS, AND
INDUSTRY RESTRUCTURING. THE QUESTION OF DEVALUATION
WILL ALSO HAVE TO BE DEALT WITH IN THE CONTEXT OF
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THESE OTHER MEASURES.
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Message Attributes

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Disposition Event:
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